

STRATEGIC RETAIL LOYALTY AND M - COMMERCE – A WINNING STEP FOR FUTURE PROSPECTIVE

ARABINDA BHANDARI

Presidency University, Itgalpur, Rajanakunte, Bangalore, India

ABSTRACT

Research Summary

Complexity of modern business is helping managers to innovate new strategy to retain the customer in competitive environment. To ensure a long lasting relationship, organizations are offering certain sales promotional activities to attract the customer. Customer finds it is beneficial to join such program as they can earn rewards for purchasing the same product from the same organization. Through loyalty programs, organization can potentially gain more repeat business, get opportunity to cross-sell and obtain real time data about buying behavior of the customer which can be use for various marketing activities. This will also help to reduce the supply of substitute products.

This paper will attempt to provide an understanding regarding the benefit of Strategic Loyalty program and its opportunity (model) in relation to M - Commerce.

Managerial Summary

This paper will attempt to provide a conceptual overview of Strategic loyalty program in organized retail sector in India. It will also throw a light on customer expectation and perception about retail loyalty program, and how this loyalty program will be use to grab the opportunity in rural area of India by using the mobile commerce.

This study has conducted on more than 3000 retail out let in India and has found that Loyalty program can be a strategic competitive edge of an organization in a red ocean area. This loyalty model can be also used for the benefit of common man, if it is linked with the mobile commerce.

KEYWORDS: Strategic Loyalty Matrix, TpdT Loyalty Matrix, Dead Loyalty, Trap Loyalty & Pro – Loyalty

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INTRODUCTION

Review of Literature

Loyalty programs have proliferated across travel, retail, financial services, and other economic sectors. The average U.S. household participates in 29 different loyalty programs, according to the 2015 Colloquy Loyalty Census. The result is a maze of point systems and redemption options, with cumbersome processes for exchanging points among program partners. Loyalty programs are ripe for some kind of disruptive innovation that would make them easier to use [1] more and more organization makes recourse to loyalty programs within the framework of a strategy (Dawkins and Reich held 1990). The result is a multiplication of programs with the objective to make a long lasting relationship with the customer. They are either focused on communication, quality and satisfaction in a transactional approach, or on true loyalty programs which are really considering the customers' life cycles within a relational approach. Customer retention actions appeared having for goal to avoid their departure. Thus, the

detection of risky periods and signs of defection have an essential importance in the organization of such actions (Reich held and Sasser 1990). While anecdotal evidence on lifetime-profitability relationship seems to be plentiful, Reich held and Teal's study (1996) and then the one of the Reinhardt and Kumar (2000) seem to be the only well-documented empirical investigations on this topic. Contrary to the anecdotal evidence that long-life customers are most profitable to the firm, Dowling and Uncles (1997) and the Rein harts and Kumar (2000) caution that, the contention that loyal customers are always more profitable would be a gross over simplification. Besides this certain authors also worry about the effectiveness of the loyalty programs.

A Brief History of Loyalty Program

It is believed that in mid 1800s, loyalty concept is pioneered by co-operatives organization. Review of literature mentions the famous Green Shield Stamp – a co-operative dividend program is the 1st loyalty program concept in Business Management. Though in developed market the real activity of loyalty program was seen in 1990s with the technological developments era [2]

According to data, In US, the value of loyalty programs was worth \$6 billion in early 2000, and there were 2,250 separate loyalty programs. Recent study found that more than 90% of Americans individual are actively participate in some type of loyalty programs in the market place. According to Forrester research study 54% of primary US grocery shoppers belong to 2 or more programs in UK, 92% of UK consumers participated in a loyalty program of which 72% were members of 2 or more programs [3]. According to a study by Byrom et al. (2001), there were 150 schemes in operation resulting in the circulation of more than 40 million cards [4]. Early adoption of loyalty program was found in airline sector. Hotels, retail, financial services. FMCG sector and pharmaceutical also experimented through continuity program and various loyalty clubs. It is observed that durable goods manufacturers, many service businesses (like entertainment businesses-multiplexes, credit card providers) and organized retail outlets have been using varied loyalty program to retain the customer for a long time

Can Strategic Loyalty Program Enhance Retail Performance?

According to the Center for Retail Management at Northwestern University, some retailers find that maximum sales go to members of loyalty programs because of long association with the organization.[5] In a study in USA, it has found that small proportion (<15%) of customers are loyal to a single retailer, but that small proportion generate more than half of company sales, Indian retailers also have realized the benefit of associated with loyalty programs. They are deriving

Huge proportion of sales from their members and the proportion are growing years after years. Take an example of Shoppers' Stop, one of the leading lifestyle retailers, derived 65% of the sales in 2008 from its just over 1 million members. In 2011, the retailer was not only significantly increases its program members, but also the proportion of sales revenue from its members. It derived 73% of the sales from its just over 2 million members and generated a total profit of 7,518 lacks. [6] By the 'Inner Circle' program of Life style [7], it has derived almost 50% of its annual revenue from about 2 million members. Many other retail organizations are also generating impressive proportion of revenues from their loyal customers. While Future group's Green Card loyalty program of Pantaloons accounts(in association with payback) for 55% of sales[8], Tata group's Westside retail chain currently generates over 50% sales from its over eight lakh members of Club West loyalty program. Loyalty programs have also proved successful even in times during economic slowdown. The overall consumer participation in loyalty programs has jumped 19% in the U.S. since 2007 and even higher when it comes

to Women at 29% and Millennial (age 18-25) at 32%. And despite the recession, over two-thirds of all U.S. consumers report that they still participate actively in at least one reward program. [9]. At a time when consumer spending was on a decline side, leading retail chains were either expanding or restructuring their loyalty program for future prospective.

Whatever may be the retail loyalty picture of above country, when the study conducted in 937 retail outlet in a city in India, the total sales out come from the retail loyalty store are like given below (Red line trends are % of retail loyalty sales in a sample market).

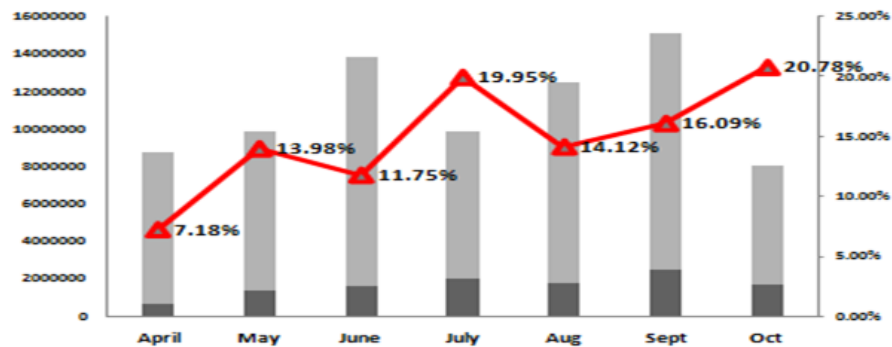


Figure 1

There is always a challenging question regarding the loyalty program that how much sales the loyal customer can contribute in your overall sales? According to A.G. Lafley and Roger L. Martin from Harvard Business School, Marketers spend a lot of time—and money—trying to delight consumers with ever-fresher, ever-more-appealing products. But their customers, it turns out, make most purchase decisions almost automatically. They look for what's familiar and easy to buy [10].

The above study shows that (Number of customer = 937, Time: 8 Months, Place: state capital, India), 14.83% Sales has been achieved by the loyal customer. However, the percentage of the sales also depends upon certain other factor like PLC of the products and seasonality if any, annual target of the respective market and market growth rate of the respective area.

Data Base Management in Loyalty Program and its Significance

Data gathered through loyalty program gives a true reflection of actions of consumer behavior and help to do in-depth analysis of customer rather than product or store. When a customer sends a SMS to a registered mobile no, customer purchasing habit database is store in the respective server or at the time of loyalty cards swipe in particular point of Purchase, data are captured automatically like registering time, day, products bought, prices paid and variety of such information of a consumer. Analysis of these database yield valuable insights about consumer shopping processes, reactions to marketing campaign and long term patterns of consumer behaviors. It also reveals, which customer has taken how many products. Based the value of products customer purchased in a time frame (may be a month/ year), total number of the customer can be segmented into three groups like silver, gold & platinum.

Thus, Product-buyer profile can be developed by consideration of individual customer's life cycles, age, and occupation. Promotion analysis & Promotion effectiveness can be measured. Based on this analysis individual customer advertisement can be formulated or narrowcasting advertisement concept can be applied. Understanding who is buying

enables to design appropriate reward and communication strategies. Relevance of rewards to which analysis can be performed by analyzing the preferences of different reward options. Tastes & preferences can be understood by undertaking basket analysis. Exploration of customer purchasing patterns helps predicting their future intentions. Cross purchasing analysis also can be done by analyzing data from various departments or products. Understanding changes in values across different socio-economic classes enable the firm to develop segment based strategies. New product launch availability and performance of the new products impact also can be seen.

With careful & systematic planning, data can be converted into consumer knowledge embedded in business and organizational processes. Data gathered through loyalty program can be put to use in the decision areas ranging from segmentation, corporate planning, store portfolio, brand management, merchandising, promotional and media activity, direct marketing, inventory management, pricing and store layout. Through proper data base management of the customer, organization can plan an e CRM activity which will help them to ensure a real loyal customer for the future. This data base also can help the organization to identify the real time consumer, which was a challenge for so many organizations since long. This data base management also can help the organization to push the product to particular retail outlet. This retail loyalty program also can help neuron - marketing subject to understand the customer buying behavior that could be another branch of management in near future.

Strategic Loyalty Matrix

After analyzing the data of the above discussion, we can conclude that, in loyalty program relationship with the customer will help organization to be success in the industry. If the relationship with the customer is very strong, you can take a chance to convert a potential customer to a loyal customer which will gives you a high return of business in near future.

Based on the relationship with the customer and Business outcome weight age, the below matrix (**TPDT Loyalty Matrix**) will help you to take a decision which type of customer you should approach for this loyalty program.

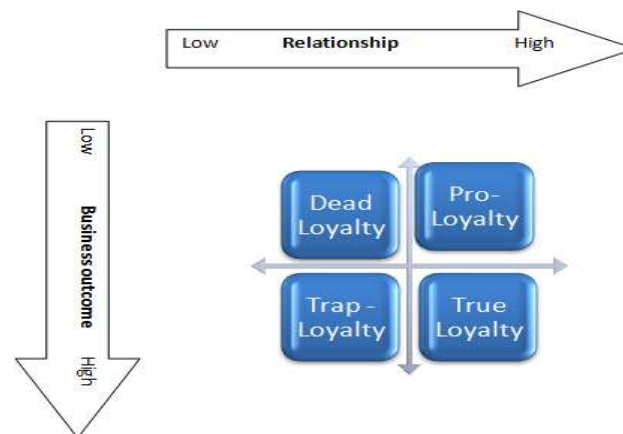


Figure 2

True – Loyalty

When the relationship with the customer is very strong and business outcome is also strong, if you are able to approach this type of customer and able to make them participate in your loyalty program, they will be loyal customer for you for a longer time.

Pro – Loyalty

If the relationship with the customer is high but the business outcome is low, if are able to make them participate in your loyalty program, they will be pro loyal customer for your organization. If you are able to mould this customer according to your loyalty program, they will help your organization to grow fast.

Dead Loyalty

With this type of customer, there is no relationship as well as there is no business opportunity. Here we should not invest our valuable energy or recourses here.

Trap Loyalty

This type of customer has very high business outcome, but relationship with the organization is less. If you are approaching this type of customer, initially you may get trapped with term and condition. Some time they may offer you an alternative of your loyalty program. Organization should deal this type of customer very judiciously in the initial stage of loyalty program, but after sometimes if they likes loyalty program and relationship with the organization increases, they could be a true loyal customer for the organization.

Initial Challenges

You can convince the customer regarding your loyalty program, but it will be difficult when you are going to implement this simple concept of the program. Initially so many problems like owner's approval for this program will not be there. Many times you have to convince your customer for a final call of approval. You may have to provide two alternative mobile numbers (one which could be primary by which you can redeem the gift and another alter native mobile number from which they can earn the points for their purchase). If delivery of the redeem gift in the stipulated time (may be 15-20 days) unable to reached to the customer on time, customer will lose the faith in this program. Initial days whenever sales executives will visit the retails out let they will not get the response as per expectation. So, sales executive has to follow certain relationship making tricks, like calling the owner with their name could be a winning formula. If the executive are able to breaks this barrier, retail out let may not be in a position to send the code in server number. Initial day retail staff will forget to send this data to the server. So executive has to visit this retail out let again and again, some time guidance about the procedure is very much needed. After getting some points customer should redeem the gift so that they will able to judge the program reality which is very much important from the organization point of view as it will be an initial experience.

Table 1

Sales Executive Name	Active Retail	Registered Retail	% Activation
A	151	245	61.63%
B	126	249	50.60%
C	112	299	37.46%
D	62	245	25.31%
E	69	244	28.28%
F	71	178	39.89%
G	64	240	26.67%

Active Retail = Has Purchased at Least One SKU in a 3 Months

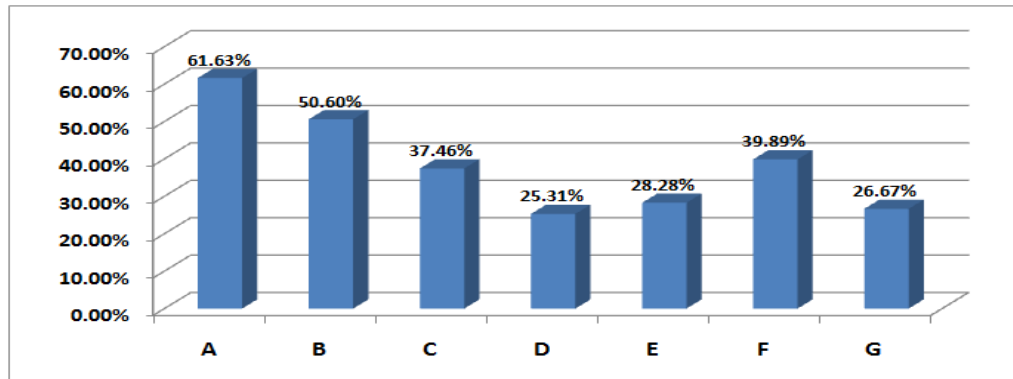


Figure 3: Activation of Registered Retail out Let in Last 3 Months

The above table will support the discussion regarding the initial challenges in Strategic Loyalty program in a sample market.

Success Story

After implementing the loyalty program in more than 3000 retail out let (Time: More than one year) in a sample market in India. The sample states outperform when compare to India sales (Organization name: ABC). This result can be replicate in other industry also but the result will be depends upon the nature of industry and the mindset of the executive who will be directly driving this loyalty program and top management involvement of the project.

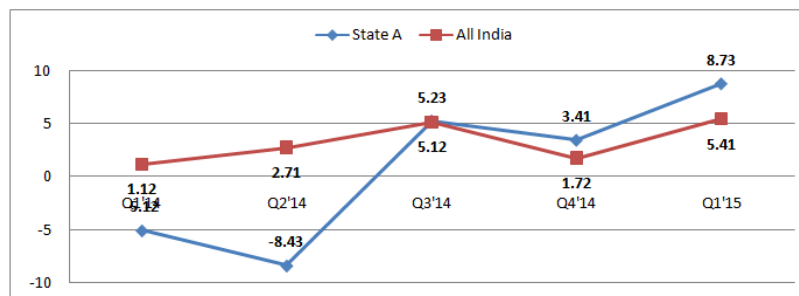


Figure 4: Comparative Study of State a Vs All India Sales in a Sample Organization, after Implementing the Loyalty Program in Q3'14

Strategic Loyalty Success Factors

Engagement

To get a good outcome from the loyalty program, organization needs to engage the retail outlet continuously, so that they will feel that this organization doing something for themselves. Organization can plan some theme related activity, festival offer or sales promotion activity with them. With this activity organization can also cross sell the products, so that overall return from the targeted retail will increase significantly.

Organization also can do some emotional attachment activity with the retail out let like DOB (Date of birth) or DOA (Date of marriage anniversary) celebration through digital media and can offer an extra point or small token of appreciation in kinds.

Recognition

Based on the purchase value of the retail outlet, organization can divide retail outlet customer into 3 to 4 categories, like silver, gold or platinum. Silver is base level, so whenever they will purchase the product they will get basic point (Suppose: 40), after certain level they can go up to gold level, here they can get 20% extra bonus point and in platinum level they may get 35% bonus points.

Reward

The retail outlet who will be purchasing the products from the organization, will accumulate the points for a certain time, depend upon the program life cycle, they can redeem the gift according to the loyalty program. To engage the customers this reward point can be used judiciously, as when required. Selection of retail royalty gift is also very much important as deliver of that gift through courier may create some problem because of logistic issue. So e - gift or voucher can be plan for the customer thus total logistic cost of the organization also gets reduced.



Figure 5: Strategic Loyalty Success Factors

Social Media and Loyalty Program

With the help of social media, loyalty program can be use in a different direction. Organizations that are practicing loyalty program can use social media as an interactive platform. They can give advertisement in social media, the registered retail outlet can go to social media and they can log in with their respective password. Retail customer can select the product from catalogue and also can share their experience with their colleagues and friend. This type of activity will help the organization to get the benefit of integrated communication.

Future Research Guidance

As discussed above, loyalty program can make a difference in your overall business, provided your organization is following the simple guideline which has been discussed in the above paragraph. This is not only the case that loyalty program can be used only in retail out of any industry. It also can be use for the local common man to fulfill the daily needs. We can use the mobile number of a basic phone or smart phone of any individual (or may be linked with Aadhaar card in India) with voice interactive technique to get connect with the organization or with any Government initiative. So that Government of any country can use this concept for common man to deliver the product at their door steps or retail mobile commerce organization can increase their business in many fold by trapping the huge potential in rural area of any country.

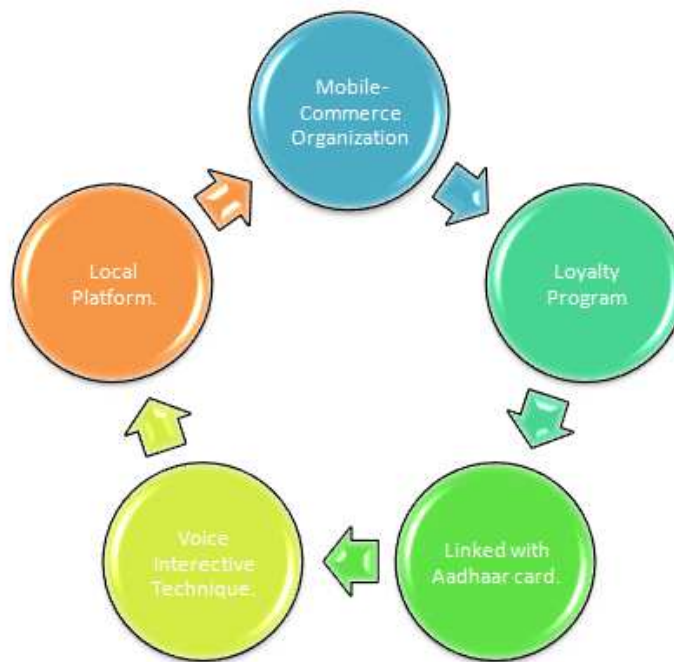


Figure 6: Future Model of Loyalty Program

CONCLUSIONS

After the discussion, it can be summaries that loyalty program has turned into a regular marketing activities of many organization worldwide, and the outcomes of this program has guided so many organization in relation to analytical model, formation of campaign, virtual communities that have helped to turn promiscuous customers into advocates customers. Initially, the success of this program is depends upon the commitment & seriousness of the management executive. May be in initial days organization will face some small problem regarding the execution of the program or customer may don't understand the technical know - how of the program. On those days trust regarding this program will play a critical role for success of the program.

As today's consumer is more value seeker, it is a challenge for a marketer to build superior value through such programs. Enabling technologies like chip based smart cards, real time point of sale, world wide web, third generation of loyalty 'rule engines'-biometrics, wireless e-tags, PSAs (personal shopping assistants) and loyalty app have evolved and provided technical support to such strategies.

India, as emerging market both for organized retail as well as loyalty programs is witnessing promotion led environment in many sectors. It is hoped that organization which build strategies to foster and reward continued patronage from existing customers. This loyalty program will help organization to create a competitive advantage; it will create a long lasting loyal customer who will give a more business to the organization. Research data shows that the organization who are using the loyalty program are getting benefit from the customer and percentage of sales increments from loyalty program is totally depend upon the ownership of the executive who are implementing this program in the field. Here, incentives related to month wise number of active retail out let can motivate the executive, which will increase the engagement of the retail outlet with this program.

Till date, we have ignored the true potentiality of retail out let in a business model. There is a huge potentiality of business out come with loyal retail out let. There may be so many questions related to the loyalty program like whether loyalty program is really loyal or not? Whether it has a strategic nature or not? What are the outcomes of the loyalty and many more but at the end, we can conclude that organization that are seriously following this program with individual emotional touch are going to get the competitive edge in near future with less of amount investment. It could be a winning strategic formula of many organizations in years to come.

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